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Weekly Contributions

[REDACTED] CORE, CIA  
14 June 1949

CURRENT DEVELOPMENTS

GENERAL: Peru's relations with Ecuador and Colombia, which were tense as the result of alarmist reports regarding Peru's military intentions, are now improved (p. 2). The Caribbean Legion, which is reported to be planning an invasion of the Dominican Republic, is not expected to take precipitate action in the immediate future (p. 2).

CENTRAL DIVISION: Colombia's congressional election returns are expected to show a gain for the Conservatives, but Liberals will retain control of the House of Representatives (p. 3). The resignation of Brazil's Finance Minister will not adversely affect that country or US interests in Brazil (p. 3).

SOUTHERN DIVISION: Differences between Chile and the US have developed during recent trade negotiations (p. 3). In Argentina, prospects for stability are improved, at least for the short run, by recent economic developments (p. 4).

SPECIAL SUBJECTS

The Current Situation in Chile . . . . . 6

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1. GENERAL: Peru's Relations with Ecuador and Colombia Improved

Tension previously existing in Ecuador and Colombia has been reduced by the discrediting of alarmist reports from those countries that Peru had hostile intentions toward them. Ecuadoran concern had reached such a point that its army staff had planned to mobilize on 4 June, but these plans were cancelled after an Ecuadoran border mapping flight over the areas in question failed to reveal the concentrations of Peruvian troops. Similarly, reported non-routine movements of Peruvian troops to the north have not been substantiated.

The present low effectiveness of the Peruvian armed forces is another factor which should further allay the sincere but largely unwarranted fears on the part of Colombia -- and especially Ecuador -- of a major aggressive move by Peru. As a result of the low pay scales and low prestige of Peru's army, which numbers 32,000 men, there are almost no voluntary enlistments and reenlistments, and there is a 50 percent turnover in enlisted personnel each year. As the faulty execution of the conscription system largely exempts the better classes, the conscripts are almost entirely illiterate Indians. Army morale, training, and strength are now at a low ebb. Transportation is in bad condition. An attempt to transfer troops, which are normally in greatest strength along the northwestern portion of the Ecuadoran border and in or near Lima, to frontier points would be difficult of accomplishment at this time.

In view of existing disaffection within Peru, the Peruvian military junta conceivably might feel it expedient to divert the attention of the people from the conduct of domestic affairs by creating a border incident somewhere along the Peruvian frontiers with Ecuador or Colombia. There is little likelihood, however, of a major invasion attempt by Peru because indications of such aggressive intent are lacking: its army is apparently unprepared, and Peruvians in general realize that such an act would have repercussions impairing Peru's relations throughout the Hemisphere.

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Possible Preparations for Invasion of Dominican Republic  
 the Caribbean

Legion, in joint action with the governments of Costa Rica, Guatemala, and Cuba, is completing plans for an invasion of the Dominican Republic and the overthrow of Trujillo.

Recent reports of an imminent revolutionary move by the Caribbean Legion, either against Trujillo in the Dominican Republic or Somoza in Nicaragua, have apparently been set off by an unusual amount of activity among Central-American Caribbean revolutionary

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25X1 circles, including a regrouping of forces and matériel in Guatemala.  estimates, however, that the superior strength of both Trujillo and Somoza will continue to deter the Caribbean Legion from taking precipitate action in the immediate future.

3. COLOMBIA: Colombia's Liberal Party retained control of the House of Representatives in the 5 June elections, although the margin of Liberal control declined from 15 to an estimated 5 seats. With one-third of the army policing the country, the elections were relatively calm: only 10 people were killed, and fraud is claimed by the Liberals in only 2 of 15 departments. The Conservatives' gain, following an election campaign during which Liberals were accused of too close affiliation with the Communists, may well strengthen anti-Communism in the Liberal Party.
4. BRAZIL: Finance Minister's Resignation Accepted by President Dutra  
Pedro Corrêa e Castro, Brazil's unpopular Finance Minister, resigned on 9 June, apparently as a result of a series of attacks against him, both in the press and in congress, in connection with government contracts for the installation and operation of petroleum refineries, the liquidation of the coffee stocks of the National Coffee Department, and a letter written by the Minister to US Secretary of Treasury Snyder during his visit to Brazil in 1947. (Contents of the letter were brought to public attention during the past several days, and Brazilians in general did not like the begging tone of the letter in which the Minister allegedly wrote, "Lend me your hand, if you do not wish to carry me on your back".) Mancel Guilherme da Silveira, present President of the Bank of Brazil, has been appointed Interim Finance Minister, and he is considered as a possible replacement for Corrêa e Castro, who was scheduled to come to the US this month as an official guest.  
Although this event has contributed to a dampening of the enthusiasm which followed President Dutra's return from the US, there is no present indication that Corrêa e Castro's resignation will affect Brazil's official attitude towards important pending financial problems, nor will his resignation be detrimental to US interests in Brazil.
5. CHILE: US-Chilean Disagreement Regarding GATT Commitments  
The US-Chilean difference which developed during recent bilateral trade negotiations arises from the US complaint that Chilean

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import tax increases are contrary to GATT commitments. Chile has rejected the US suggestion that the controversy be referred to the contracting parties of GATT, and has threatened to withdraw from GATT if any decision adverse to Chile is rendered by the contracting parties. In view of the Chilean position, the US has agreed to resume bilateral talks before submitting a complaint to GATT.

Although Chilean obduracy in the present negotiations probably stems from the González administration's fear of a financial crisis resulting from reduced government revenues caused by the recent decline in copper prices, Chile's record at previous meetings (particularly the Havana Conference), and the delay entailed in obtaining ratification of GATT, indicate its coolness toward the entire project. The record indicates that this reluctance to restrict freedom to manipulate import regulations and tariffs that protect domestic industries and provide a substantial portion of government revenues is not peculiar to Chile alone but is shared by other Latin American countries such as Argentina, Brazil and Cuba, all of whom fear competition with highly industrialized countries.

#### 6. ARGENTINA: Current Developments Favor Stability

The recently concluded agreement between Argentina and the UK on conditions of balanced trade for the next five years has undesirable features, but it is, at least for the short run, favorable for the stability of the Perón regime.

The US has shown its disapproval by protesting to the UK that the agreement will artificially channel Argentine trade in contravention of ITO principles, to the disadvantage of US trade (for example, it renders the position of US petroleum interests in Argentina most uncertain). Within Argentina, the short-term advantages are not unclouded. Labor problems, military dissension (see  Wkly, 31 May 49) and nationalist obstruction will continue to pose serious problems for the administration. A number of immediate advantages, however, are apparent. Most important, perhaps, is the possibility that the conclusion of this agreement may pave the way for a substantial expansion of Argentina's foreign trade — a development which is essential to the restoration of the government's stability. Furthermore, the success attending Bramuglia's efforts to reach an agreement with the UK and to conduct negotiations looking toward the expansion of exports to the US, despite the obstruction of nationalist elements in the Cabinet, is evidence that forces working for the restoration of stability through international cooperation are for the

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time being in the ascendant. Army discontent with the regime will be reduced to the extent that the agreement appears to offer relief from Argentina's economic plight. The higher price being charged the British for meat will provide the administration with at least a partial answer to the nationalists, who have charged that Argentine interests are being sacrificed to international exploitation.

Even though these developments are generally favorable for the Perón regime in the immediate future, it still is by no means certain that the government can, without resorting to extremes, withstand domestic pressure during the considerable period required for such improvement to be realized.

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The Current Situation in Chile

(Summary: The situation in regard to US security interests continues to be favorable. In the political field, post-election maneuvering by political parties has undermined the pro-government coalition. Economic prospects are less promising than formerly. The Communist Party is concentrating on recouping its losses, particularly in the labor field where a general restlessness is becoming noticeable. The armed forces remain loyal to the government. In international affairs, Chile remains a valuable opponent of military regimes and friend of the US.)

The principal political problem facing the González administration at this time is that of maintaining a measure of party support for the Executive. Although the President has overcome one cabinet crisis and has reiterated his intention to pursue a policy of "national unity", the individual parties are jockeying for advantages with the 1952 presidential election in mind. Since the opening of Congress on 21 May and the subsequent scramble for congressional offices, the solidarity of the pro-government coalition has been undermined by growing estrangement of the Liberals and Traditionalist Conservatives, whose candidates for office were defeated by Radicals in combination with opposition groups. There is a strong indication that the Radical Party, victorious in the recent election and strengthened by reunion with the dissident Radical-Democrats, has deserted its pre-election allies entirely and may attempt a realignment of left-wing forces or may adopt an independent policy in regard to political alliances with either the right or the left. It may be assumed that any rightist Liberal and Traditionalist Conservative cooperation with the administration would have as its only basis agreement regarding the anti-Communist issue, so that it may be expected that if the President is to secure sufficient support for his ambitious economic and social program he will find it necessary to arrive at an understanding with the non-Communist left.

Although significant progress has been made in the economic field during the past year, problems arising from the chronic dollar shortage, aggravated by the decline in copper prices  Wkly, 19 Apr and 17 May 49), have darkened the general economic outlook and pointed to the necessity of preventing a serious imbalance between exports and imports, of revising budgetary and foreign exchange estimates, and of stabilizing the

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economy. At present, dollar exchange is being allocated with extreme caution, and wherever possible, trade is being diverted to non-dollar areas rather than to the US. It is anticipated that the payments agreement recently signed with Western Germany will reopen that important market for Chilean commodities.

While there have been no labor disturbances of serious proportions, an increasing number of disputes and short-lived strikes indicate a general restlessness in labor's ranks, a restlessness which probably will increase if any widespread unemployment due to plant cutbacks and shut-downs should result from the drop in copper prices. Up to the present the absence of well-organized labor leadership, together with the government's continued policy of intervention in the initial stages of labor disputes, accounts for the apparent labor peace. Reports of Radical Party efforts to establish a national Radical labor confederation indicate a breakdown of any trade-union agreement between the Radical, the CTCH Socialist, and Democrático labor forces, and also point up the lessened possibility of the establishment of any non-political national labor organization as advocated by President González.

The Communist Party retains its latent ability to threaten the internal peace of the country, but it has been considerably weakened politically by the 6 March elections. If succeeding months witness an economic setback of major proportions, it may be expected that the hard core of militant Communists will become increasingly active.   
Party plans for the future now center on internal reorganization and preparation for underground activity of the Party, possible formation of a united political front with at least a portion of the left-wing Socialists, and resumption of activity in the labor field, as evidenced by radio reports of a Communist victory in the recent election of the Lota coal miners union. It is true that rivalry among the various factions of non-Communist labor will aid the Communists in their efforts to regain strength in the labor field, but the President's alarmist speeches regarding the dangers of a revolutionary attempt appear to over-estimate Communist strength.  estimates that Communist power at this time is still too dispersed for effective action.

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The overwhelming majority of the armed forces is considered loyal to the constitutional government and not inclined to interfere in political matters, despite the administration's concern over some discontented elements. The annual complement of recruits was called up in April (as is the usual custom) for a 9-12 months' period, bringing army strength to its normal maximum of approximately 23,794 men, about 39 percent of the

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60,894 total military and national police personnel. Efficiency is relatively high, but hampered by lack of up-to-date equipment, a deficiency which has also served to lower morale somewhat, particularly in the air force. Approximately 20-21 percent of the government's total expenditures go to the armed forces; during the first portion of the fiscal year, however, the major portion of the funds were spent.

In international affairs, Chile continues to deplore the rise of military regimes in Latin America, and to denounce generally, both at home and abroad, the "Communists and Fascists" who seek the overthrow of democratic governments. Chile's attitude toward Argentina and Peru remains one of outward courtesy and inner reserve and watchfulness. The González administration, greatly concerned over the Bolivian disturbances, has removed Bolivian exiles in Chile from border areas in order to aid the neighboring government. Recognition was extended to the Paraguayan Government on 22 April. The new ambassador from Mexico, the first since last year, arrived during the quarter. Toward the US, Chilean policy continues to be generally favorable with a marked eagerness for US financial aid. In the United Nations, Chile prides itself on active participation; however, recent disagreements with the US over GATT commitments have led to a Chilean threat of withdrawal from GATT if the US presses for a general, rather than a bilateral, discussion of the dispute (see page 3 of this Weekly).

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